Minister Hanafin announces measures to support workers in pensions schemes

Pensions Insolvency Payment Scheme (PIPS) to be introduced

The Minister for Social and Family Affairs, Mary Hanafin T.D. today *(Monday, 27th April 2009)* published the details of measures she is taking to support workers in defined benefit pension schemes. These measures are being included in the Social Welfare and Pensions Bill 2009 which will be finalised in the Oireachtas this week.

Pensions Insolvency Payment Scheme (PIPS)

In a major new development, a new Pensions Insolvency Payment Scheme (PIPS) is being introduced to assist employees and former employees of companies where the employer becomes insolvent and the defined benefit pension fund is in deficit. Under the scheme, the scheme trustees can pay a sum to the Exchequer to cover the cost of paying the pensions of retired members, instead of buying annuities. Savings will then be put towards the pensions of those yet to retire, thereby reducing, to some extent, pension shortfalls. PIPS is intended to be cost neutral from an Exchequer point of view.

The Minister for Finance said **"I am bringing forward a Pensions Insolvency Payment Scheme to address the problems being faced by people who have seen their**

employer become insolvent and their pensions reduced. The scheme should go some way towards reducing those losses in a way that is cost-neutral to the Exchequer."

Announcing the measures, Minister Hanafin said **"we are in a situation where defined benefit schemes are being wound up and some employees and former employees are ending up with less than they are due. I want to make it easier for people to get more. This new Government scheme will provide for pensions at a lower cost, leaving more funds available for those who have yet to retire."**

The National Treasury Management Agency will be delegated powers by the Minister for Finance to price the cost of purchasing pensions on a not-for-profit basis.

Change to wind-up priorities

Minister Hanafin also announced a change in the way that funds are disbursed if a defined benefit pension scheme is wound-up with a deficit. Pensioners will continue to get first priority for their pensions but any future pension increases will not be granted until workers who have also contributed to the scheme, and have yet to retire, receive their share of benefits.

Minister Hanafin explained, **"I think it is unfair that when a defined benefit scheme winds up in deficit, a person who retired yesterday is entitled to his or her full pension – as**

well as annual increases in that pension – while a person who is due to retire tomorrow may receive only a small proportion of their benefits. This amendment protects pensioners, but by moving pension increases lower in priority, it means that workers – who may have been contributing to the scheme for decades – get more of a share of their entitlements."

Restructuring of defined benefit pension schemes

At the moment, only existing employees can make sacrifices to secure the future of their pension scheme. The Pension Act is being amended so that they will not be the only group to suffer if the fund is being restructured. For the future, current and former employees and pension increases can be included in any restructuring. For those already in receipt of pensions, the existing level of pension will not be affected. This will share the burden amongst all members, and prevent the current workers being the only group to suffer difficult loss.

Strengthening regulation

It will be easier to prosecute employers who do not pass on the pension contributions made by employees to the pension scheme and anyone convicted of this offence will also face much harsher penalties.

Announcing these wide-ranging and important measures, the Minister said **"I am acutely aware of the difficulties facing**

defined benefit schemes in the current economic environment. Scheme members and trustees have been faced with huge difficulties as a result. The introduction of the Pensions Insolvency Payment Scheme, the change in the wind-up priorities, the extended ability to restructure schemes and the stronger regulation will help in easing this pressure and protecting the benefits of all members of pension schemes. These measures will also help ensure that employees who are faced with unemployment because their employer has become insolvent will receive a greater proportion of their expected benefits."

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